

# Long-Term Care Hospital Prospective Payment System News

This Fact Sheet highlights significant policy changes that were adopted in the May 12, 2006 LTCH PPS and August 18, 2006 Final Rules.

## Updated Final Rule for the Long-Term Care Hospital Prospective Payment System (LTCH PPS)

Under the LTCH PPS, the Centers for Medicare & Medicaid Services (CMS) implemented several special payment provisions to account for short stays, interrupted stays, or unusually high cost admissions.

The initial Final Rule describing the system was published in the Federal Register on August 30, 2002 (67 FR 55954). Effective July 1, 2004, the LTCH PPS Rate Year is established as July 1 through June 30. On July 1 of each year, there will be payment updates based on:

- An update to the Federal Rate;
- An update to the Fixed-Loss Amount for High Cost Outlier payments;
- An update to the wage index; and
- An update to the transition period Budget Neutrality Offset.

Annual updates to the LTCH PPS will be published in the Federal Register by May 1, but no later than June 1 (effective July 1).

As specified in the Final Rule published on August 30, 2002, the LTC-DRGs and relative weights will be updated on October 1 of each year. CMS maintains the October 1 update for the LTC-DRGs and relative weights to coordinate with the annual update to the ICD-9-CM Diagnosis Manual and the DRG updates for the Inpatient Prospective Payment System (IPPS), as required by the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

Information regarding the LTC-DRGs and relative weights will be published annually in the IPPS Proposed and Final Rules.

This separation of the two updates provides a July 1 update of the Federal Rate, and an October 1 update of the LTC-DRGs and relative weights.

### Medicare Contracting Reform (MCR) Update

Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) enacted numerous contracting reforms. A key aspect of these reforms is that Medicare will begin integrating Fiscal Intermediaries (FIs) and Carriers into a new single authority, called a Medicare Administrative Contractor (MAC). As of October 1, 2005, new Medicare Contractors are called MACs. Also, from October 2004 through October 2011, all existing FI and Carrier contracts will be transitioned into MAC contracts, using competitive procedures. Providers may access the most current MCR information to determine the impact of these changes at [www.cms.hhs.gov/MedicareContractingReform/](http://www.cms.hhs.gov/MedicareContractingReform/) on the CMS website.



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The yearly IPPS Final Rule updates the Long-Term Care-Diagnosis Related Groups (LTC-DRGs), relative weights, and the Average Length of Stay (ALOS) effective October 1 for that Fiscal Year. The Final Rule for updating LTCH PPS rates for RY 2007 was published on May 12, 2006, after a period of public comment. This update, which took effect on July 1, 2006, provides several important changes to the LTCH PPS, including revisions to the Short-Stay Outlier policy and the discontinuation of the surgical exception to the 3-day or less Interrupted Stay policy. The LTC-DRGs, relative weights, ALOS, and other IPPS-excluded hospital policy changes for FY 2007 were published in the IPPS Final Rule on August 18, 2006, after a period of public comment. The changes will be effective October 1, 2006. Please visit [www.cms.hhs.gov/center/hospital.asp](http://www.cms.hhs.gov/center/hospital.asp) on the CMS website to view this Final Rule.

## Background

Long-Term Care Hospitals (LTCHs) treat patients with multi-comorbidities requiring long-stay hospital-level care. To be designated as an LTCH, Medicare requires that a hospital typically demonstrates that on average, it has an average length of stay for its Medicare patients of greater than 25 days. On October 1, 2002, CMS established the Long-Term Care Hospital Prospective Payment System (LTCH PPS). In the LTCH PPS, the method of determining payments for LTCHs shifts from a reasonable cost basis to a per discharge system, based on Long-Term Care-Diagnosis Related Groups (LTC-DRGs).

## What Are Long-Term Care-Diagnosis Related Groups?

The LTCH PPS uses LTC-DRGs as a patient classification system. Each patient stay is grouped into an LTC-DRG based on diagnoses (including secondary diagnoses), procedures performed, age, gender, and discharge status. For each LTC-DRG, CMS annually calculates an Average Length of Stay (ALOS) for a patient classified to the LTC-DRG. Under the LTCH PPS, an LTCH receives payment for each Medicare patient, based on the LTC-DRG to which that patient's stay is grouped. This grouping reflects the typical resources used for treating such a patient. Cases assigned to an LTC-DRG are paid according to the Federal payment rate, including adjustments.

## What Change Was Made to the Short-Stay Outlier Policy?

The LTCH PPS Final Rule, published on May 12, 2006, revised the methodology used to calculate short-stay outlier payments. Effective for LTCH PPS discharges occurring on or after July 1, 2006, as outlined in the Final Rule, the short-stay outlier payment for a case is the least of one of the following:

- The full payment for the LTC-DRG assigned to the case.
- 120% of the LTC-DRG per diem amount. The per diem is calculated by dividing the full LTC-DRG payment by the ALOS for the LTC-DRG, and multiplying by the actual LOS of the case.
- 100% of the estimated cost of the case, calculated using the provider-specific Cost-to-Charge Ratio (CCR). (Prior to RY 2007, this calculation used 120% of the estimated cost of the case.)
- A blend of the comparable Inpatient Prospective Payment System (IPPS) per diem amount and 120% of the LTC-DRG per diem amount. This calculation was added to the payment methodology beginning in the 2007 Rate Year.

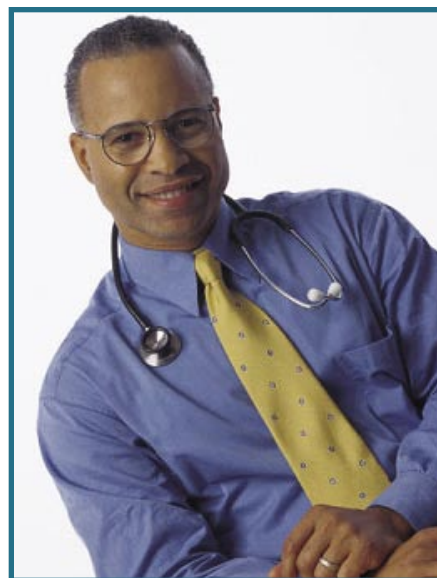
For more detailed information on the new short-stay outlier policy, please see the Short-Stay Outliers Fact Sheet.

## What Is the Update to the LTCH PPS Federal Rate for the 2007 Rate Year?

Since the LTCH PPS was implemented in FY 2003, the LTCH PPS Federal Rate was updated annually, based on the most recent estimate of the LTCH PPS market basket, effective for discharges on or after July 1 of each year. Based on an analysis of LTCH case-mix indices and margins since implementation of the LTCH PPS, for RY 2007, an adjustment was made to the most recent estimate of the LTCH PPS market basket to account for the effect of coding or classification changes that do not reflect an increase in patient severity. Consequently, the LTCH PPS Federal Rate for RY 2007 remained unchanged at \$38,086.04.

## Which Rates Were Updated in the Final Rule?

The updated Final Rule revises several key rates that affect the LTCH PPS payments. Table 1 shows a full list of the updated LTCH PPS components, along with the previous rates, the new rates, and the effective dates for the changes.



**Table 1. Updated Payment Rates and Effective Dates for LTCH PPS Components**

<i>The LTCH PPS Component</i>	<i>Rate or Version Effective July 1, 2005</i>	<i>New Rate or Version Effective July 1, 2006</i>	<i>Subsequent Updates Will Be Effective On</i>
Federal Rate	\$38,086.04	\$38,086.04 (no change)	July 1
Fixed-Loss Amount	\$10,501	\$14,887	July 1
Budget Neutrality Adjustment	0.0% (*1.000)	0.0% (*1.000) (no change)	July 1
Wage Index Data	FY 2001 audited acute care hospital inpatient wage data (the same wage data used to develop the FY 2005 IPPS wage index)	FY 2002 audited acute care hospital inpatient wage data (the same wage data used to develop the FY 2006 IPPS wage index)	July 1
GROUPEr Version	23	24	October 1
LTC-DRGs	—	—	October 1
Relative Weights	—	—	October 1

\* The PRICER payment amount will include the adjustment factor as 1.00.

## What Other Provisions Are in the Final Rule?

The Final Rule published May 12, 2006, also includes other important policy changes that affect the LTCH PPS:

- CMS adopted the “Rehabilitation, Psychiatric and Long-Term Care (RPL)” market basket to replace the “excluded hospital with capital” market basket that is currently used as the measure of inflation for calculating the annual update to the LTCH PPS Federal Rate. This change resulted in an increased labor share that is used in the adjustment for area wages, from 72.885% to 75.665%.

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- CMS discontinued the surgical DRG exception to the 3-day or less Interrupted Stay policy. This policy allowed Medicare to make a separate payment to an acute care hospital if the patient's condition was grouped to a surgical DRG during a 3-day or less interruption in stay (i.e., if the patient was discharged from the LTCH on "Day 1," was admitted for a surgical procedure at an acute care hospital and was readmitted to the original LTCH by "Day 3"). With the policy termination, the LTCH would be required to provide such services "under arrangements" (i.e., the LTCH would pay the acute care hospital for the services). Medicare would not make a separate payment to the acute care hospital. For more information about the Interrupted Stay policy, please see the Interrupted Stay Fact Sheet.

## Example

**Time Period:** July 1, 2006 through September 30, 2006

Medicare payments will be based on the updated Federal Rate determined on July 1, 2006 and LTC-DRGs and relative weights determined on October 1, 2005.

**Grouper Version:** 23

**Time Period:** October 1, 2006 through June 30, 2007

Medicare payments will be based on the updated Federal Rate determined on July 1, 2006 and LTC-DRGs and relative weights determined on October 1, 2006.

**Grouper Version:** 24

## Where Can I Go for More Information about the Updated LTCH PPS Final Rule?

The following online references provide more information about the LTCH PPS:

- The Medicare Learning Network Web Page  
The Medicare Learning Network (MLN) is the brand name for official CMS educational products and information for Medicare fee-for-service providers. For additional information visit the Medicare Learning Network's web page at [www.cms.hhs.gov/MLNGenInfo](http://www.cms.hhs.gov/MLNGenInfo) on the CMS website.
- Long-Term Care Prospective Payment System Web Page  
[www.cms.hhs.gov/LongTermCareHospitalPPS/01\\_Overview.asp](http://www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp)  
The Long-Term Care Hospital Web Page provides the Final Rules and additional LTCH PPS-related documents.
- LTCH PPS Press Release Updating the LTCH PPS for Rate Year 2007  
[www.cms.hhs.gov/apps/media/press/release.asp?Counter=1848](http://www.cms.hhs.gov/apps/media/press/release.asp?Counter=1848)  
The press release summarizes how Medicare is updating the format and data of the LTCH PPS system for Rate Year 2007. These changes were also published in the Federal Register on May 12, 2006.
- LTCH PPS Final Rule on Annual Payment Rate Updates and Policy Changes  
[www.cms.hhs.gov/QuarterlyProviderUpdates/Downloads/CMS1485F.pdf](http://www.cms.hhs.gov/QuarterlyProviderUpdates/Downloads/CMS1485F.pdf)  
The LTCH PPS Final Rule provides a more in-depth look at the changes for Rate Year 2007.

- Federal Register Notice for Revision to Hospital Inpatient Prospective Payment System (IPPS) FY 2007 Final Rule (CMS-1488-F)

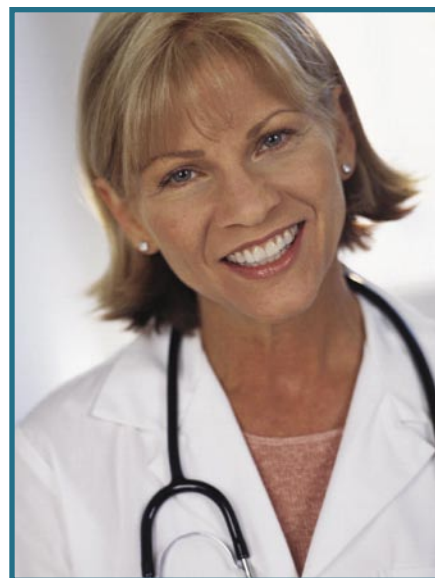
[www.cms.hhs.gov/QuarterlyProviderUpdates/Downloads/CMS1488F.pdf](http://www.cms.hhs.gov/QuarterlyProviderUpdates/Downloads/CMS1488F.pdf)

The FY 2007 IPPS Final Rule establishes changes to the methodology for determining the CCR ceiling and applicable statewide average CCRs used under the LTCH PPS, as well as clarification and codification of existing policy regarding the determination of LTCHs' CCRs and the reconciliation of LTCH PPS outlier payments. This Final Rule also contains the LTC-DRGs, relative weights, ALOS, and other IPPS-excluded hospital policy changes that are effective October 1, 2006, under the LTCH PPS.

- CMS Manual System - Medicare Claims Processing Manual - Update-Long Term Care Hospital Prospective Payment System (LTCH PPS) Rate Year 2007 (Transmittal 981)

[www.cms.hhs.gov/transmittals/downloads/R9s81CP.pdf](http://www.cms.hhs.gov/transmittals/downloads/R9s81CP.pdf)

The CMS Manual System - Medicare Claims Processing Manual update provides updated payment rates, provisions, and updates to the Medicare Claims Processing Manual for the LTCH PPS Rate Year 2007.



Questions about the updated Final Rule and the LTCH PPS can be emailed to [ltchpps@cms.hhs.gov](mailto:ltchpps@cms.hhs.gov).

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